RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 16, 1992 **LETTER 1104**

THE PICTURE: All right, darn it, what's going on? Here we have the US in its "stickiest" and longest recession since World War II --and, surprise, the Dow plus the big composite averages (S&P 500, NYSE Composite) have been acting as if nothing's wrong.

The latest statistics show that the ranks of the US "poor" (those living in poverty) have risen for the second year -- to 14.2% of the population, or a total of 35.7 million people. This is the worst showing since 1964. Just as bad, the decline in purchasing power of Americans (medium household income) actually shrank last year by nearly $1,100. Finally, the latest figures show that American business and industry lost 167,000 jobs in August as factory employment skidded to its lowest level since April 1983 (ironically, the expectation was that employment would be up).

Yet the market holds together. Is there a rationale for the market's surprising performance in the face of these depressing economic statistics? Well, yes, there is. As I've explained previously, the stock market has been trading off the declining interest rates. And US interest rates are now the lowest in three decades. The only thing stopping the Fed from bringing the discount rate down to zero (well, let's say 1%) is the crushing collapse of the dollar. Actually, following the most recent dismal employment statistics, the Fed dropped the Fed funds yet another notch -- to an even 3%.

As one veteran commodities trader said to me last week, "If a year ago somebody had told me that T-bills would be yielding 2.9%, I would have told him he was out of his mind." "Yep," I replied, "it's a confirmation of the old adage, 'The market can do anything.' And I guess you can say that as long as the Fed is a political animal, interest rates can do anything."

So much for a few of the fundamentals. What about the stock market itself? How do we analyze the price action? Here I turn to classic Dow Theory analysis. The April 8 lows for the Averages hold the secret of the primary trend of the market. The April 8 low for the Industrial Average was **3181.35,** for the Transportation Average it was 1301.57. On June 22, the Transports broke decisively below their 1301.57 low, but the break was NOT confirmed by the Industrials.

Thus, the market has been reacting to an important downside non-confirmation. Furthermore, the Transports, in a series of declining steps (see page 1 chart) broke to successive lower lows -- and still the Dow refused to confirm the weaker Transports (an impressive performance). Downside non-confirmations usually lead to rallies, and we've seen somewhat of a rally.

How good has the rally been? So far, not that impressive. But what is impressive is that the market has held up as well as it has, in the face of the unending parade of rotten economic news.

As explained in previous Letters, for technical reasons (if nothing else) I continue to designate this as a bull market. Furthermore, I'll stick to that designation as long as the Dow holds above **3181.35.** Since 95% of analysts know little or nothing about the Dow Theory, my bull market designation may seem incomprehensible to them. Be that as it may, the bull is still in the box (see Investment Position), and the bull will remain there until I get a countermanding Dow Theory bear signal.

Sept. 4 DJIA 3281.93; PTI 3557; A-D Ratio -9.53
Sept. 11 DJIA 3305.70; PTI 3561; A-D Ratio -9.45
Dow Yield: 3.12%; Dow Price/Earnings: 57.3
Dow 200-day MA: 3257; Dow 30-day MA: 3312
Dow Times Book Value: 2.54; PTI 89-day MA: 3519
Percentage of Undervalued Blue-chips: 9%

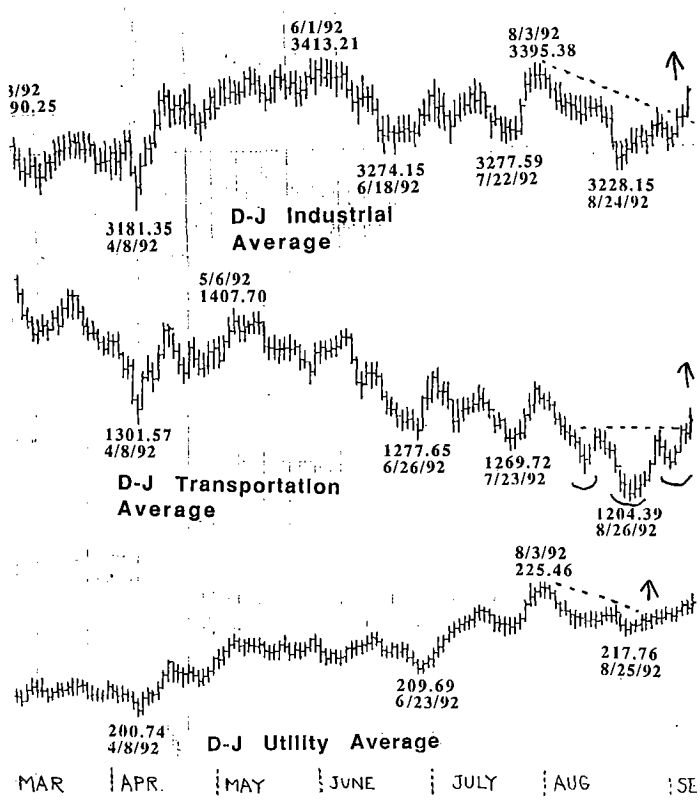
Again I want to point out that during August the Dow broke below its July low whereas the advance-decline ratio held well above its comparable July low. Thus, the A-D ratio outperformed the Dow. This is almost always a technical plus, and again it is something that almost nobody noticed.

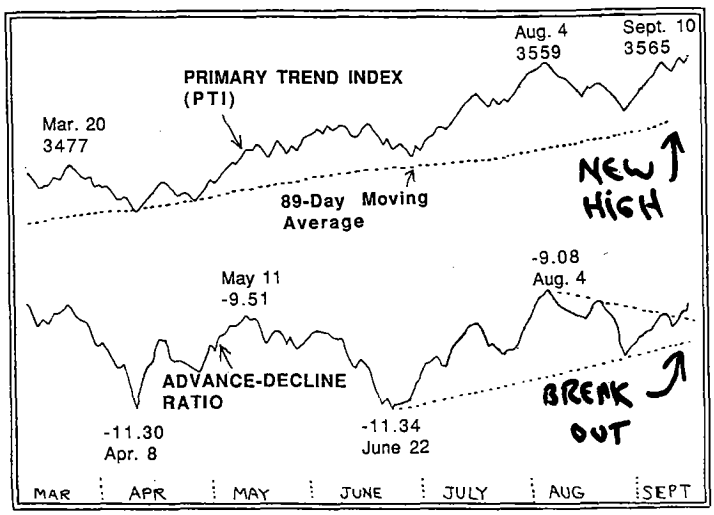
Therefore, an early sign of weakness would be the A-D ratio undoing or reversing its recent strength. That would entail the A-D ratio turning down and breaking below its August low (please study the page 2 chart).

Referring again to the page 2 chart, my Primary Trend Index (PTI) on September 10 advanced to a new record high. Thus, it obviously remains in the bullish mode.

For new subscribers I should explain that the PTI is an amalgam of eight indicators, each based on market action. It is impossible for the market as a whole to head down on a trend basis while the PTI is in its bullish mode. Conversely, when the PTI is in its bearish mode, it's impossible for the market to mount a meaningful, persistent advance.

Does my judgment or interpretation affect the PTI? No, honestly, I don't call the tune for the PTI, I simply follow it. Like Doctor





Frankenstein, I constructed the monster, and the monster immediately assumed a life of its own. However, unlike Frankenstein's monster, the PTI has been a huge help to me over the last 21 years. Time after time it has kept me out of trouble. Let me put it this way: I've got a fair amount of brains, but when it comes to determining the underlying direction of the market, the PTI is a lot smarter than I am.

ASSETS: Every era has its mysteries, deceptions and foolers. Which is one of the reasons why investing is so difficult and why the majority of investors, over any extended period of time, tend to LOSE money. Furthermore, I predict that the decade of the '90s will treat investors no better.

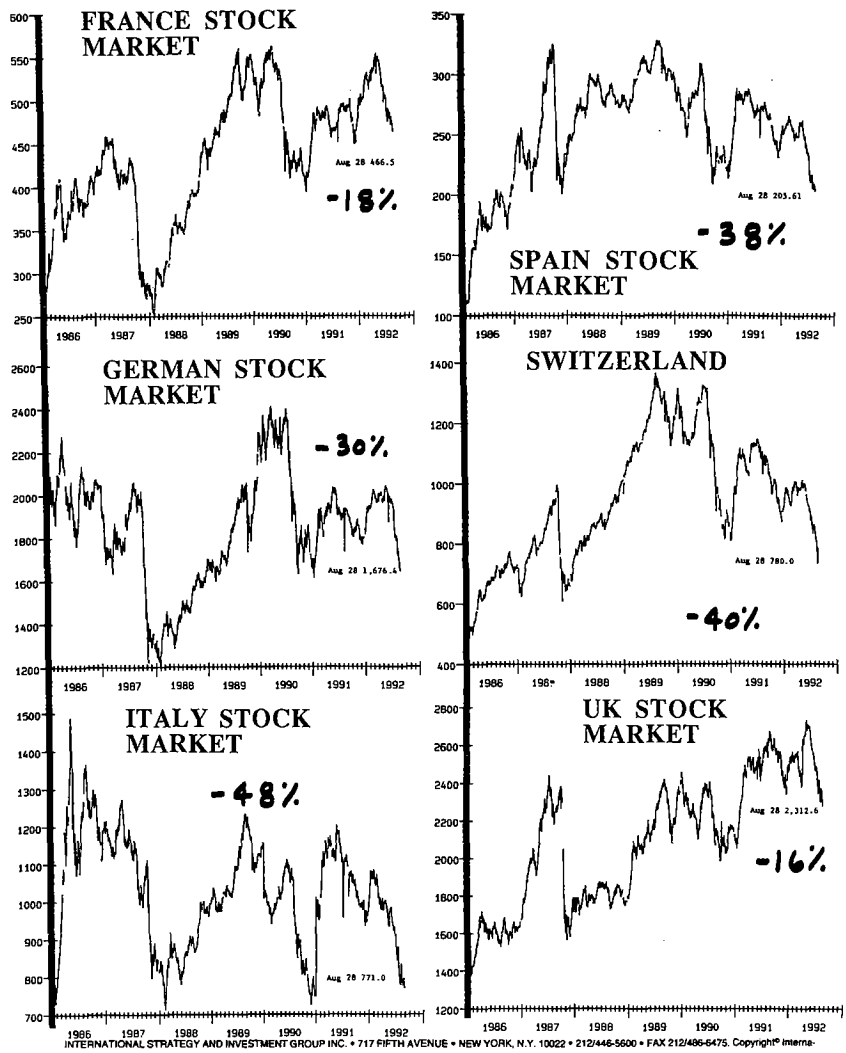
At any rate, here are some ideas I have been mulling over. The US is running deficits of over $420 billion a year or over $8 billion a week. Remember, classically deficits are supposed to stimulate the economy. But there comes a point of diminishing returns, and I'm afraid the US (in its eternal spending mania) has passed the point of no return.

Thus, instead of being a stimulant to the economy, our current massive deficits have become a retardant. Today's deficits are eating up most of the nation's savings, they are forcing huge interest payments, and they have caught the US economy in a vice-like grip.

Perhaps worst of all, the deficits are slowly but surely destroying the dollar. I maintain that no currency can hold up against federal deficits of $1.15 billion dollars a day (to refresh your memory, that's over a thousand million dollars a day in deficits, day in and day out, 365 days a year).

What are the chances of the deficits being reduced? I'm afraid very slim. Bush is running around the country handing out all kinds of largesse, and on top of that he's promising tax cuts, which, of course, would greatly increase the deficits. And Clinton is openly talking tax increases ("It's okay, the increases are for the 'rich' only") plus a lot of new spending -- a policy which is almost guaranteed to increase the deficits.

Just as the Germans are terrified of inflation, the US is phobic about deflation and recession. Regardless of whether Bush or Clinton is elected, there will be tremendous pressure to "get the nation moving again" (the pressure is here already), and this will necessitate increased government action on the spending front along with guaranteed greater deficits.



So it could be that the thought of a stream of new spending in 1993 is acting as a stimulant to the stock market. And I ask myself, "Aside from 'full steam ahead on the spending front,' and absurdly low interest rates, is there anything else holding this market up?"

I come up with this -- there's an 'unconscious' in the market, a sort of collective intelligence. And that collective intelligence is saying, "The dollar is slowly but persistently going down the drain." And what actually is the dollar? The dollar is a piece of paper printed by the US government. But there's nothing of intrinsic value behind the paper dollar. Furthermore, no definition exists for the dollar. Today the dollar is a dollar simply because the US government says it's a dollar. And the dollar is accepted as a medium of exchange simply because the US government states (you can read this on your dollar bill) that "this note is legal tender for all debts, public and private."

Then on the opposite side of the dollar we read, "In God we trust." I trust God too, but I don't know what that has to do with the value of the dollar. As a matter of fact, if God, among other things, stands for truth and righteousness, then I doubt if God is enamored with the dollar, since the dollar (in its long slide) has been bilking and cheating its holders ever since World War II.

To get back to the Dow. My idea is that the market, in it s remarkable unconscious wisdom, is saying, "If I hold CDs or T-bills or anything comparable to cash, then I am holding a depreciating asset. But if I hold investment-grade stocks (i.e., Dow-type stocks), then I'm at least holding part-ownership in a tangible asset. In the end, I can almost guarantee that Merck and McDonald's and MMM are going to survive in some form. Furthermore, their shares have a long history of

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holding their purchasing power. Which is a lot more than I can say for the dollar."

Conclusion: Aside from declining interest rates, there's another reason for stocks holding up, particularly investment-grade, dividend-paying stocks. The reason is that investors are viewing these stocks almost as tangible items, as "something of intrinsic value." As for the dollar, over the long run it has become "a guaranteed vehicle of confiscation, a sure ticket to declining purchasing power."

MORE ON DOLLARS: All central banks hold two items in their reserves -- gold and foreign currencies. The major foreign currency which all central banks hold as their reserve currency is the dollar.

For this reason, central banks get very nervous when the dollar heads down in a big way (which it's been doing lately). Furthermore, since almost all central banks hold large quantities of dollar reserves, when the dollar heads south it means that the value of the various nations' reserves also heads south.

Aside from impacting on the the value of central banks' reserves, a skidding dollar renders US exports very cheap, while at the same time a cheap dollar runs up the price of imports to the US. Thus, a "cheap dollar" is a stimulant for US exports and a killer for nations who want to sell to the US.

Europe is now in recession, and Europe is unhappy with the new cheap dollar -- Europe is unhappy because Europe has to export. But the new cheap dollar has made European products increasingly expensive for US buyers.

The cheap dollar is a product of rotten business in the US; it's a product of the US recession and US deflation. When the Fed collapsed interest rates to produce the cheap dollar, it was hoping to revive the US economic corpse. It was also hoping to stimulate US exports while depressing European exports. A side effect -- in cheapening the dollar the US was exporting its own deflation to Europe. Europe, you can be sure, is not happy with the US "cheap-dollar policy."

The key to European interest rates is Germany's very independent Bundesbank. The Bundesbank sets Germany's rates, and Germany sets Europe's rates. Recently, in raising German rates (even while rates were being lowered here) I felt that the Germans was spitting in the US' eyes. It was the Bundesbank's way of saying, "We do what we have to do -- and unlike the US, we at the Bundesbank are not ruled by the politicians."

There was a time when a hint from the US would have been a strong signal for German interest rates to decline. No more. Germany no longer needs the US military to protect her (there are no longer any major enemies in Europe). So at this point, the Bundesbank can go its own way, and it can ignore any and all pressure from the US.

In the end, Germany will not tolerate inflation, whereas the US wants to revive inflation. The battle, so far, has produced a powerful high-yielding D-mark and a low-yielding, weak dollar.

Timing: Timing, of course, is always the most difficult part of investing. Or as my old friend, John MaGee used to say, "Don't tell me what to buy, tell me when to buy it." In other words, every item will make its move at some time or other -- the trick is to know when the move is starting.

What to do with the dollar? So far the dollar has dropped 20% against the mark during 1992. Will the decline continue? Obviously it's impossible to say. The adverse fundamentals for the dollar are still there, but the dollar is now vastly oversold, and, on a purchasing power-parity basis, it's cheap (one estimate is that the dollar is 30% cheaper than the D-mark on a purchasing power basis). Tourists in Europe, for instance, can't believe what's happened to the dollar. As one fellow (interviewed on CNN) in London put it, "We've had a great, expensive vacation, and now it looks like we'll have to swim back to the States."

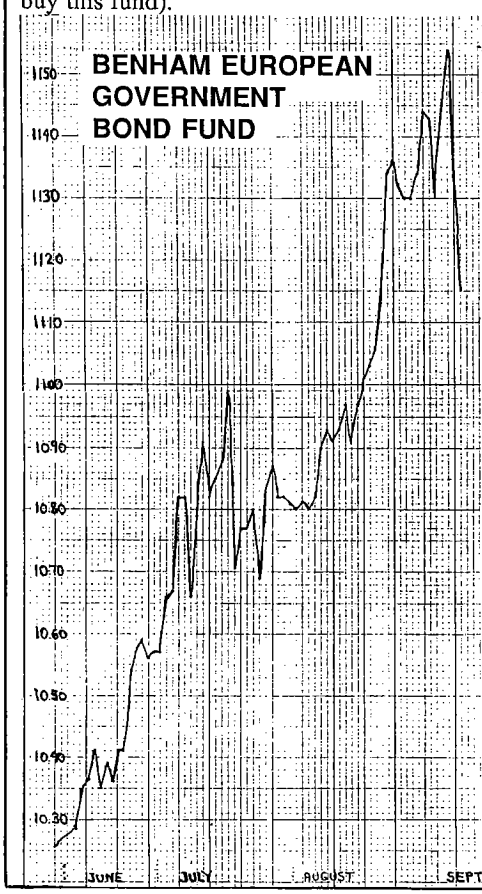
Personally, I've stated all along that my subscribers should hold some foreign instruments, whether German bonds, an international bond fund, foreign currency accounts. I'll go more into this in the Investment Position section, but at this point, with the dollar down so far, the choices are no longer easy.

FOREIGN MARKETS: One of the most remarkable facets of the current picture is the disparity between the US stock market and the rest of the world's markets. On page 2 I have included Ed Hyman's chart (*International Strategy & Investment Group,* 717 Fifth Ave., NYC 10022) of six major European stock averages (we all know about Japan's bear market so I won't go into that). European stock markets have declined 32% from their peaks. Comments Ed Hyman, "Only the French market is above its 1987 high, while Italy's and Spain's markets are at their 1987 lows."

The six charts shown certainly suggest that Europe is in the grip of the bear. So again, the question, "How can the US avoid the bearish forces that seem to have overtaken all the rest of the world's markets?" My only answer is that US interest rates are at thirty year lows, while European rates have pushed so high that almost all of Europe's economies have been forced into recession. The actual figures are that from their '91 lows US short rates have dropped 69 basis points while French rates have risen 135 points, Germany's rates have advanced 56 points, Italy up 539 points, Spain up 181 points, UK up 37 points.

INVESTMENT POSITION: As explained in the preceding section, the bull remains in the box. But my instinct, of late, is that there is more profit in the currencies than in stocks.

Those of us who bought the much-recommended Benham European Government Bond Fund have reaped juicy profits over a short period of time. I include my daily chart of this fund (the chart starts at 10.23 in May at the point where I first urged subscribers to buy this fund).



What about now? When I first recommended the fund nobody was talking about the dollar. Now the sick dollar is front page news, and the TV programs are bringing in all their "currency experts" to tells us what happened. Does this mean the dollar slide is over? No, but when a trend makes the headlines it obviously is becoming quite mature.

No matter, I still believe that the correct position is to be heavily hedged in "non-dollar" items, including German bonds or the Benham fund .

Where is Germany heading and can the mark remain powerful? An article

in the current *Fortune* is entitled, "Why Germany Will Lead Europe." The piece notes that "growth in German capital spending between '89 and '91 was more than triple the US rate, ensuring that new German products can keep their competitive edge. And though tax rates are high, companies have great leeway in reporting income. As a result, corporate taxes are only 5.5% of total taxation in Germany, compared with 8.2% in the US and 24% in Japan. As for labor costs, Germany is moving rapidly to lower them, primarily by shifting manufacturing to lower-wage countries. As for more evidence, look at the new East. When Germany completes its unification gamble, which is the largest investment of its kind in history (already three times the Marshall Plan), it will have earned the prestige it needs to extend its economic and political domination in Europe, west and east. Unification will enable Germany to measure up to Japan and the US as the third world superpower." Russell comment: And again I repeat -- the Germans will not tolerate inflation.

If you haven't bought any of the foreign currencies as I have so often suggested, you might as well sit tight now. Usually every year brings one or more, often two, major investment opportunities. The first has been the German mark. The second just could be the stock market -- if it gets hit hard and makes an important bottom between now and November (September and through November, historically, have produced a lot of big sell-offs). We haven't had a major over-sold market bottom since August 1990 -- over two years ago. The long time span is unusual, and it increases the odds of a major sell-off and bottom between now and the end of the year.

So remember, when you're dealing with the markets, **"Collapse equals opportunity."** The key word now is patience.

NOTES & QUOTES: Reading the many polls, I would say that Clinton's lead over Bush is now about 5-6%. The "family values" and "God is a Republican" drivel seems to be tailing off, mainly because it provided such good fuel for the night-show humorists and for the nation's cartoonists. I was never enamored of George Bush (although I may be forced to vote for him), but I must say that I am taken aback by the frenzy, the absolutely manic force, of his re-election drive. Bush is running around the nation, promising billions to farmers, to Florida's refugees, selling an air armada to Taiwan, and all the while promising to lower taxes. I think even Clinton is surprised at the reckless wildness of the Bush efforts. Actually, I dismiss the whole Bush performance as a spate of temporary power-hungry nuttiness. Maybe Baker will take Bush by the arm and somehow calm him down and hopefully drag him back to reality.

Mike Peters
Dayton Daily News

New York Times columnist William Safire has the election outcome figured. He writes, "Mr. Bush charges that Democrats will raise taxes, striking fear into wage-earners. Mr. Clinton is counter-charging that Republicans will cut services, frightening retirees. Workers outnumber retirees. If these are the battle lines, Bush will win."

* *

For many years San Diego was considered one of the hottest housing markets in the nation. But things change. Here are the figures on home sales (new and existing) in San Diego for the January through June period: 1989 -- 26,962 homes sold; 1990 -- 21,522; 1991 -- 16,303; 1992 -- 15,781.

The new trend for Americans is moving out of the cities and the suburbs into the real country. When I say real country I'm talking about the open spaces or even to the small towns of 5 and 10 thousand or less. What this means is escaping crime, pollution, traffic jams, and all the other frustrations of the crowded life. The fact is that in many cases the suburbs have become simply the outskirts of the city. I see it in San Diego, and I've seen it in many other cities. One major problem in moving to "the country" has been lack of communications. But today, with electronics and satellites, nobody has to be isolated any longer. So look for it -- people with the wherewithal, people who are fed up, are moving, and they're moving out of the cities, past the suburbs, to the underpopulated "wilds of America."

Note: For the first time in 20 years, California during the last fiscal year lost more residents to other states than it lured.

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Ah, the ruble. The Moscow currency exchange holds auctions twice a week. At an auction a few weeks ago, the Russians got a shocker. The ruble fell from 168 to the dollar to 205. At least there's one currency that's weaker than the dollar. In the meantime, in Mexico, just south of here, they want to make the peso a real currency. At present, there are over 3,000 pesos to the dollar. The Mexican government wants to lop off three zeros, and thus give the peso a total "make-over."

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The more I study it, the more convinced I am that Ross Perot pulled out of the race because he realized how much money he would have to spend in order to be a real competitor (he went bye-bye after spending $14 million). But Perot had some great ideas for government, and here are a few of them: (1) Develop a fair tax system, one that raises enough to pay the bills, (2) Pass laws prohibiting cashing in on prior government service, (3) Develop an intelligent energy policy. Currently, we have NO energy policy, (4) Give the president a line item veto (Russell comment: many legal experts think the president already has this power, but Bush never has the guts to test it), (5) Pass laws to stop Congress from exempting itself from laws it imposes on the rest of the nation, (6) Bring the ridiculously generous Congressional retirement plan in line with private-sector plans, and get rid of unnecessary perks in government, (7) Pass laws requiring the return of all excess political campaign funds to the Treasury, (8) Replace the Electoral College with the popular vote, (9) Eliminate Political Action committees, (10) Hold elections on Saturday and Sunday instead of Tuesday, making it easier for working people to vote. Russell comment: What do you think the chances are of any of this coming to pass? I give the odds at around zero.

* *

Poor Fed chief Alan Greenspan (who never did have a good forecasting record): At a seminar sponsored by the Kansas City Fed, Greenspan complained that "We're all struggling on a worldwide basis with forecasting models that have been less than adequate on an operational basis . . . it's not easy to make these models track" what is going on in the economy. Russell translation: Greenspan and the Fed didn't, and still don't, know what the hell's going on in the economy.

* *

Speaking of government, between 1990 and 1991 the largest percentage increase in spending was 34% for the Labor Dept. (understandable with the huge unemployment). Second was the Justice Dept. with an increase of 24% (I guess understandable with crime booming). And third was the executive department of the president -- up, 23%. For what? The increase was $36 million. Why did Bush have to spend an extra $36 million? And he's talking about cutting expenses?

* *

I've been asked by other advisory service owners how I stay in business without doing any advertising. I do some direct mail, but it's true that I stopped advertising about four years ago. Despite no advertising, subscriptions here are near the highest in 32 years, so I guess I must be doing something right. But the real secret of doing fine without advertising isn't a secret -- it's having loyal subscribers. I've just been looking over the books and renewal

subscriptions for the latest three months run as follows: June renewals 86%; July renewals 97%; August renewals 91%. I believe these are the highest renewal rates in the industry, so again I want to take a sentence or two to thank my subscribers. I love this business, I love dealing with the markets. Occasionally, a subscriber asks me, "Russell, when do you plan to retire?" Answer: I don't plan to retire. Retire from what? This is where I want to be.

I was an English major in college (business minor), and it was my aim to write the great American novel. After a year or so I realized that I was no Tolstoy or Hemingway, but I did like to write. Little did I think, however, that I would end up writing about the markets, but as Shakespeare put it, "All's well that ends well."

One word of advice to new market-letter writers (and I have a lot of you as subscribers): Russell's first law in the investment advisory business is that you have to learn how to write. I don't care how brilliant you are, if your readers can't understand what you're saying or if your writing is so boring or prosaic that nobody will read it, you're not going to make it in this very tough, very competitive business.

* *

I'm still reading "Hard Drive," the new book about computer genius and billionaire Bill Gates, CEO of Microsoft. The book provides a fascinating picture of what it takes to be wildly successful. It takes brilliance, vision, hard work and maybe an obsessive nature. Gates certainly is obsessive -- he lives, breathes, dreams software and computers.

I just bought two Toshiba notebook computers (486s) and the little devils are mighty powerful. So I was particularly taken with the chapter in "Hard Drive" about the early computers. Here's an excerpt: "The vacuum tube soon replaced the electromechanical relay switches and gave birth to ENIAC, the first electronic digital computer in the US. It was unveiled in 1946 at the Univ. of Penn. Built to calculate artillery firing targets for the military, ENIAC weighted 30 tons and contained 18,000 vacuum tubes, 70,000 resistors, and 10,000 capacitors. It took up more space than the average two-car garage. The ENIAC cost about half a million dollars to develop and could handle about 5,000 additions and subtractions per second. Today, any inexpensive home computer can outperform ENIAC. The machine was not very reliable. Its tubes failed at the rate of one every seven minutes. Still, it was used during final stages of completion to do mathematical calculations for the physicists at Los Alamos who were building the first atomic bomb." Fascinating.

* *

Over the last few years the recession plus the cutback in the military plus businesses leaving the state has meant the loss of 1.2 million jobs in California. The state has become a mighty welfare magnet with three million people now on welfare, five million on public medical assistance, plus an estimated 66,000 homeless (you see them everywhere). The result: huge budget deficits and a state with its finances in shambles. So now the big squeeze is on, and the new California budget will be making massive spending cuts. As I've often said, "To stay in California, you really have to love it." The reasons for leaving keep growing and multiplying.

* *

One irony of this long-lived recession is that corporate profits are actually improving. Of course, the other irony is that a major reason for the improving profits is that corporations are trimming the dead wood, meaning they are firing employees by the tens of thousands. Examples: IBM over the next few years will have cut 100,000 employees. GM will have cut 72,000. The result: improving corporate profits but also a true national unemployment rate (courtesy of *Sindlinger*) of 10.5%.

* *

I was never a fan of the "new Disney." Too much money-grubbing, too anxious to commercialize on everything even down to Mickey Mouse fast food restaurants. Then they put up Euro Disney outside of Paris. It hasn't been a big success. Euro Disney stock hit a high of 164 francs last March, a month before the park opened. Last week Euro Disney stock dropped to 68 francs, below the price it was first issued at -- three years ago. Disappointing attendance was given as the reason for the stock decline as well as deferment on a decision to pay the dividend.

* *

If you're ever in a strange town without any money, here's what you do. Walk into the nearest bar and make a bet with someone. Bet him he can't spell the U.S. Marshalls Service correctly (I did this once). It's almost guaranteed that you'll win. No it's not the US Marshall's Service; Marshalls is not the possessive, it's the plural (and it's also the most misspelled of any government agency). Now alas, due to the budget squeeze, the Marshalls Service has a shortfall of $10 million. This will mean cutbacks, a hiring freeze, and cancellation of all but "absolutely essential employee training."

* *

Deflation is murdering the inland catfish business. The economies of Arkansas, Louisiana, Texas, Alabama and Mississippi have become intertwined with the huge catfish industry. In the Delta, which produces roughly two-thirds of the nation's catfish, there are about 100,000 ponds and lakes, all growing the fish. Today, due to vicious competition, catfish are selling for 60 cents a pound wholesale, but producing a pound of the fish costs 65 cents. As a result of this great overproduction and a freefall in prices, a shakeout is occurring in the industry.

* *

California has enough troubles these days, as anyone reading these Letters is well aware of. Well, at least (fingers crossed) we haven't had the long promised earthquake, the so-called "Big One." But a new problem has arisen. Southern California is heavily dependent on defense for jobs and green. Now Hughes Aircraft is moving its whole missile operation from California to Tucson. Reason: less government red tape, less labor troubles, better all-around business atmosphere.

But the new problem for US aircraft manufacturers in general is the Russians. One thing the Russians do extremely well is build military and civilian aircraft. The word is now that the Russians are selling the world on their famous, high-performance MIG-29, and they are also selling good quality civilian planes -- at roughly 30% below the market. Obviously, this is not going to help US aircraft manufacturers.

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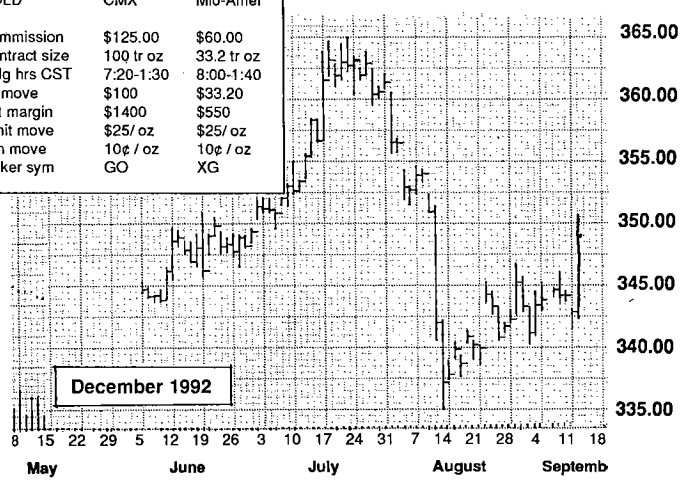
Maastricht: Most Americans may be oblivious to it, but all Europe is anxiously awaiting the September 20 French referendum on the Maastricht Treaty. Maastricht (a city in Holland) refers to the planned Treaty on European political union. Very briefly, this is what the Treaty involves: (1) An inter-government foreign and security policy, which might lead to a common, all-European defense force. (2) A common European citizenship. (3) An inter-governmental framework for justice and home affairs. (4) A modest increase in power for an European parliament. (5) A commitment to economic and monetary union by 1999 for nations which fulfill the rather strict economic requirements. (6) A European monetary institute to be set up in 1994 as forerunner to an all-European central bank.

Denmark put the Treaty to a popular vote, and the Danes turned Maastricht down. If the French people vote it down, the plans for an "United States of Europe" will suffer a severe blow, maybe a fatal one. A big problem is that each country in Europe has its own problems, and each population wants to address mainly its own problems. A union of nations would mean giving up sovereignty. Furthermore, it is clear that Maastricht would mean that Germany would be Europe's leader, a thought that frightens many Europeans. This is particularly true today when Germany is keeping its interest rates high, thus pressuring many European nations (plus the UK) either to keep their own rates high or to realign their currencies (devalue).

In preparation for the coming September 20 vote, European currencies and stock and bond markets are gyrating wildly as investors and speculators attempt to adjust to the possible outcome of the Maastricht vote. All we know is that the polls predict a very close vote, with possibly a slight edge toward a "Yes" on the Treaty.

Hey, there's more to life than stocks and bonds and options and futures. Here's your editor up in El Cajon (25 miles east of San Diego) with 450 other assorted bikers (and I mean assorted, everything from Hell's Angels to doctors and lawyers). We're getting ready to ride for Jerry Lewis' Muscular Dystrophy Telethon. And yes, Faye and I had a good time. Aside from earthquakes and droughts, I'll say one thing for San Diego. Where else can you plan a ride six months away and know the sun will be out? I think we've had one day of rain in the last eight months.

GOLD	CMX	Mid-Amer
Commission	$125.00	$60.00
Contract size	100 tr oz	33.2 tr oz
Trdg hrs CST	7:20-1:30	8:00-1:40
$1 move	$100	$33.20
Est margin	$1400	$550
Limit move	$25/ oz	$25/ oz
Min move	10¢ / oz	10¢ / oz
Ticker sym	GO	XG



GOLD: If you are holding gold or gold stocks (as I am) you can't be too thrilled by the action this year (with the exception of American Barrick and Pegasus, both of which act very well).

On September 12 gold (Dec. futures contract) rose as high as 351 as this chart shows (courtesy of my friends at Dunn & Hargitt out of Lafayette, Indiana).

With the dollar, the mark, the Swissie and every other currency bouncing around like a mad rubber ball, a few investors must think that it's time to get into real money, which, of course, is gold. Here's another way of looking at it -- up to now investors who were worried about the dollar could run into a strong currency like the mark. But now with the mark taking it on the chin, where do you go -- back into the dollar? Well, you can, but why not some gold? Which, I think, is the reason for the pop in the yellow metal.

LATE NOTES: I should have seen it coming. On September 14 all hell broke loose as the Bundesbank cut the German discount rate a mini (token) 1/2% and the Lombard rate a token 1/4%. Why did they do it? The pressure was on the Bundesbank from European nations and from the US. The European economies are in recession, and the high German rates were squeezing the economies of the various nations (including the US) mercilessly. Furthermore, with the French vote on Maastricht coming up this Sunday, the Bundesbank did not want to appear to be the "stubborn bad guy." With its slight easing, the Bundesbank was telling the world that it was not unsympathetic to the plight of other nations (and besides, the rate cuts were calculated to show the French that the Germans were really flexible, so "why not vote YES on Maastricht.").

With the coming vote on Maastricht a big unknown, traders decided to move to the sidelines, which meant moving out of all other currencies and into the "neutral safety" of the vastly oversold dollar. On top of that, of course, the German rate cuts reduced (very slightly reduced) the almost ridiculously wide yield spread between the mark and the dollar.

The US (despite what you might have heard) is still mired in recession, and the election is drawing ever closer. And most important -- the pressure is off the dollar. So my guess is that the battered and frantic Fed will jump at the chance to cut the US discount rate again. There has been much criticism to the effect that the Fed totally misjudged the severity and persistence of the recession, and that the Fed resorted to "gradualism" in bringing down interest rates (i.e., bringing rates down with a series of tiny cuts instead of bringing them down with big cuts and in a hurry). Therefore, it would not surprise me to see the Fed go the whole hog and cut the discount rate a full 1%.

Few people have noticed but from their April 8 lows the S&P 500 (and the NYSE Composite) have formed a series of higher lows and higher highs. To keep the series bullishly on track, it would be necessary for the S&P 500 to break out to a new high above its August peak. So the key number to watch is the S&P high of **425.09.**

Meanwhile, as you can see on the page 2 chart, the PTI has rallied to a new record high (this should come as no surprise to subscribers since the PTI has remained stubbornly in its bullish mode all year).

Subscribers who are in the Benham European Government Bond Fund have profits or losses depending on when they bought the fund. My instinct is to stay with the fund, even though it is now down substantially from its 11.54 high.

Long term I don't see any fundamental change in the dollar/mark relationship. Basically, the US is still trying to inflate -- basically, Germany is fiercely anti-inflationary. Basically, the US is acting like a banana republic, cheapening its currency in an effort to boost exports. Basically, Germany is acting like a developed nation that sells high-tech products while retaining a strong, inflationary posture and a powerful currency.

I've seen wild markets in my lifetime, but 1992's markets are near to taking the prize. The dollar dropped 20% in '92 against the mark, then more recently the mark dropped 7% against the dollar in a matter of weeks. My PTI has been hitting new highs, but none of the major averages have confirmed (at least, so far). The Dow Transports fell apart during May to August, but then formed a head-and-shoulders bottom and spurted (see page 1 chart). Gold did nothing while the dollar fell apart. The bonds hit new highs as the Fed (over the last few years) dropped interest rates on 24 separate occasions. All the while Bush claimed that things were looking up, while Greenspan complained that his statistics weren't working the way they used to. So 1992, it's the year of surprises, and remember, the year isn't over yet!

NEXT MAILING: Sept. 30, 1992